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SUBJECT: SCENESETTER FOR UPCOMING TRADE TALKS IN WASHINGTON

REF: MONTEVIDEO 00418 AND PREVIOUS

Classified By: Charge d'Affaires James D. Nealon
for reasons 1.4 (b) and (d)

¶1. (C) Summary: Following the successful Vazquez/POTUS encounter in the Oval Office on May 4, trade talks between GOU negotiators and USTR have been scheduled to take place at a meeting in Washington during the last week of June. The GOU is now much more focused on discussing a Free Trade Agreement (FTA). This is mainly due to President Vazquez leadership, but also to advance preparations made by Uruguayan technical experts. The GOU is also less obsessed with its paper mill dispute with Argentina, after a favorable preliminary readout from the court case in The Hague. There is a palpable sense of urgency in the GOU to move forward on an FTA, derived in great part from the realization that this opportunity will not present itself again and that time is running out on Trade Promotion Authority (TPA). Embassy notes that an FTA with Uruguay would hand a defeat to Chavez, at a time when Venezuela is formally being inducted into Mercosur.

¶2. (C) In response to a barrage of misinformation by opponents of a trade agreement with the U.S., spearheaded by ForMin Gargano, Post provided background information to journalists to help educate the public and dispel misconceptions. Emboffs also met with senior GOU officials, representatives from all political parties and key business leaders. Recent polling suggests that there is now greater public support for an FTA, though there is still opposition, particularly from hard-line Socialists and Communists. The June 13-15 visit of WHA/BSC Director Douglas M. Barnes was useful in furthering discussions of GOU plans for trade talks. During his visit, a number of senior GOU officials told Barnes that Uruguay is ready for serious trade talks and is earnest about exploring an FTA. End Summary.

MFA's Economic Affairs Director General Amarin

¶3. (C) On June 14, WHA/BSC Director Doug Barnes and EconCouns met with the MFA's Director for Economic Affairs Carlos Amarin. Amarin was open and forthcoming. He confirmed that the Uruguayan Embassy in Washington and USTR were close to finalizing dates for a meeting in Washington during the last

week of June. He explained that the dates had gone back and forth because of the need for the Uruguayan negotiating team to attend WTO meetings in Geneva, where he was optimistic that progress was in the making.

14. (C) Amorin said the purpose of the Washington meeting will be to focus on working groups and areas/chapters to be discussed. While it may not be possible to define at this meeting whether the final agreement would be an FTA, he noted, such a decision would not take much longer. He said other ways to address market access --i.e. through the WTO-- were much more complicated than an FTA, thus implying that the only way forward was an FTA. Amorin then reviewed the chapters to be discussed. He commented that the BIT had taken care of the investment chapter and that the GOU should have "no problem" with services and IPR. He added that the GOU had forwarded WIPO internet treaties to Parliament for ratification. Market access and governmental purchases would require more work, Amorin noted. He did not expect resistance from local industries, but mentioned possible issues with small farmers, rice, pork and wool textiles. On the positive side, he noted that computer and capital goods currently benefit from an exception to the Mercosur Common External Tariff (CET), with a tariff of only 2%, something that could easily be eliminated. Turning to the Uruguay-Mexico FTA, Amorin said it was quite similar to a typical U.S. FTA, but mentioned that the mechanism used by Uruguay in this instance to comply with Mercosur rules was through an ALADI agreement.

15. (C) Barnes then asked how the GOU intended to handle Mercosur --and in particular Brazil-- if it were to move forward on FTA talks with the U.S. Amorin replied that the

issue would be defined long before the Mercosur Summit in Argentina on July 20-21. "We are preparing documents for our friends," he said, and noted that Brazilian ForMin Celso Amorin will visit Montevideo the week of June 19 (June 23, according to media reports) to meet with the five ministers involved in trade talks with the U.S. and with President Vazquez. He was optimistic: "We have a case for an exception", adding that "what we have now in Mercosur is a customs union without the benefits." In an obvious reference to the favorable conditions for accession being granted to Venezuela, Amorin said "if we are talking about flexibility on the part of our partners, then let's talk about Venezuela." He noted "flexibility" within Mercosur, taking into account the "new reality of Mercosur", which he thought worked in Uruguay's favor. In a related development, Carlos "Chacho" Alvarez, ex-Argentine Vice-President and current President of the Permanent Commission of Mercosur, declared in full-page interview published on June 16 by left-leaning Uruguayan daily La Republica that "I believe what President Vazquez and Uruguay are asking is just, in that Mercosur must be flexible to allow Uruguay to enter into commercial agreements with the United States, in the same way that Brazil, Argentina and Uruguay signed agreements with Mexico (...) I am convinced that Mercosur must be flexible and allow such agreements, so that countries can find better opportunities in the international markets."

EconMin Trade Policy Director Sarachaga

16. (C) Barnes and the Charge then met with Dario Sarachaga, Trade Policy Director at the Economy Ministry. Sarachaga was very clear as to the purpose of the Washington meeting. "What we have to do," he said, "is define what we are negotiating, how often we will meet and what the time frame is." He said the GOU team will propose negotiation of an "ATUM" ("Acuerdo tipo Uruguay-Mexico" or "Agreement of the Uruguay-Mexico type") as a starting basis. He added that there is no mystery that what is being talked about is an FTA, but that he was using this name to take care of current "political sensibilities."

17. (C) Sarachaga then outlined in detail the preparations of the GOU team, which appeared to be well underway. He explained that five working groups had been formed: 1) goods

(to deal with 18 groups of products, access issues, SPS, technical barriers), 2) services (e-commerce, monopolies; he noted that some work has already been done in services with the BIT), 3) IPR issues, 4) government purchases, and 5) institutional issues. Sarachaga commented that the GOU has contracted outside expertise to prepare itself for negotiations. The World Bank is currently providing an advanced trade statistics course, Chilean experts will be invited on July 11-12 to discuss IPR issues, and Costa Rican ex-Trade Minister Alberto Trejos has been invited for consultations.

18. (C) Asked about Mercosur, Sarachaga confirmed the upcoming visit of Brazilian ForMin Amorim. He said that the issue of an FTA with the U.S. had already been broached with the Brazilians a week ago and that GOU EconMin Astori would meet with Amorim. As for private sector reaction to an FTA, Sarachaga pointed out that the EconMin and Industry Ministry were in consultations with the Chamber of Industry, to determine "offensive" and "defensive" areas. (Note: The four major private sector chambers, including the Chamber of Industry, recently published an open letter supporting the negotiation of an FTA with the U.S. and calling on the GOU to approach its Mercosur partners in this regard. End Note.) Sarachaga did not expect much friction with the issue of monopolies either, noting that in telecommunications, the entire cellular sector is free and only fixed-line telephony is a state monopoly. As for governmental purchases, he commented that all FTAs reserve some space for national companies. Sarachaga closed the meeting by pointing out that the average Uruguayan tariff on U.S. goods is 4 percent, while the average U.S. tariff on Uruguayan exports is 14 percent. That is why we are talking about an FTA, he said.

What's in a Name?

19. (C) Sarachaga's inclination to find an alternate name for an FTA was echoed at practically every other meeting with Uruguayan officials. They suggested it would be useful to change the name from that of a Free Trade Agreement to something more politically palatable to the left-leaning, "anti-neoliberal" elements in Congress. Especially egregious to the Left is the word "agreement", which has been translated into Spanish as "treaty", thus carrying heavy political overtones. One interlocutor pointed out that Chavez's own alternative to FTAA (ALCA in Spanish) for Venezuela, Cuba and Bolivia is termed with the catchy acronym of "ALBA", meaning "Dawn." (ALBA stands for "Bolivarian Alternative to the Americas".) Embassy recommends that USG interlocutors in Washington be sensitive to the issue and open-minded to alternative names for an agreement whose substance would essentially be an FTA. We note, for example, that Peru's FTA with the U.S. is called a Trade Promotion Agreement (TPA).

Presidential Chief of Staff Gonzalo Fernandez

110. (C) On June 14, the Charge met one-on-one with President Vazquez's Chief of Staff Gonzalo Fernandez. The Charge began by congratulating him on his appointment as the head of Uruguay's team for upcoming trade negotiations. Fernandez said that President Vazquez is "completely committed" to deepening trade relations with the U.S. He said that his appointment as lead negotiator was a sign that Vazquez wanted to "keep the reins in his own hands" in order to avoid bickering among ministers and to maintain political control. While Fernandez admitted that he was not an expert on trade negotiations, he said that Ambassador to the U.S. Carlos Gianelli, the MFA's Carlos Amarin and the Econ Ministry's Dario Sarachaga were well up to the task. Fernandez said the GOU was still looking at three options: an FTA, an expanded Bilateral Investment Treaty (BIT) and possible "sectoral or unilateral agreements." (Note: Unlike the technical experts from the MFA and EconMin, Fernandez still seemed to believe that something other than an FTA was possible to achieve Uruguay's goals. End Note.) Fernandez confirmed that Uruguay wants to emulate Chile and said that at present Uruguay and Chile are the only "serious" countries in the

region.

MFA's Director General Jose Luis Cancela

¶11. (C) In the late afternoon, WHA/BSC Director Barnes and the Charge met with Ambassador Cancela, the MFA's Secretary General. Cancela began by reporting a favorable assessment of Uruguay's prospects at the International Court of Justice in The Hague regarding the paper mill dispute with Argentina. When the conversation turned to trade, Cancela said he understood that "important advances had been made" including that the GOU's negotiating team was in place and that the dates for the next meeting had been agreed upon. He said he expected that A/USTR's Everett Eisenstat would visit Uruguay before October of this year. The Charge responded that he could not confirm Eisenstat's travel but would inquire about it with USTR. With respect to obtaining Mercosur's "permission" to allow Uruguay to engage in a trade deal with the U.S., Cancela thought that Brazil was apt to be "flexible", but observed that "it would not be unusual for a customs union to debate such an issue."

Media Reactions

¶12. (C) In response to a barrage of disinformation by opponents of a trade agreement with the U.S., spearheaded by ForMin Gargano, Post provided background information to journalists to help educate the public and dispel misconceptions. Emboffs also met with senior GOU officials, representatives from all political parties and key business leaders. A full-page interview with the Charge in the June 8 issue of the respected business weekly "Busqueda" received excellent reviews, and we heard from many supporters that the USG's silence had been taken as ambivalence. Then media picked up the Charge's talking points in pro-FTA editorials that followed the Busqueda interview. Recent polling suggest increasing public support for an FTA, though there is still opposition within the Frente government, particularly from the Socialists and Communists. The private sector came out recently with an open letter supporting an FTA with the U.S. and urging the GOU to discuss it with its Mercosur partners. Trade talks with the U.S. remain front-page news, and we get asked about them every day. Post would welcome robust, usable talking points as we continue to fight Minister Gargano's disinformation campaign.

Meeting with MFA Officials

¶13. (C) At a dinner on June 14, WHA/BSC Barnes met with the Acting Director General for Political Affairs, Alvaro Gallardo, the Director for Multilateral Affairs Gustavo Alvarez and the Deputy Director for the Americas, Mario Liori. Liori thought that Brazil was not likely to oppose Uruguay's bid for an FTA with the U.S. His reasoning was that Brazil knew that sooner or later it also would enter into an FTA with the U.S., because both countries are natural partners facing the same competition from the Far East. This meant, he said, that an Uruguayan FTA was no threat to Brazil or to Mercosur. Liori also believed that Brazil's "cooperation" with Argentina within Mercosur was a "marriage of convenience" based largely on Brazil's need to garner support for its own bid for a permanent UNSC seat.

Comment: An Opportunity to Send a Clear Message

¶14. (C) WHA/BSC Barnes' visit to Uruguay confirmed the GOU's focus on concrete decisions and timetables for serious trade talks. It appears that the GOU understands the challenges involved in negotiating an FTA with us and seems willing and prepared to undertake serious efforts towards this objective. There is a palpable sense of urgency within the GOU and a realization that there will not be another opportunity for an FTA any time soon, with time running out on Trade Promotion Authority (TPA). Our interlocutors kept repeating that the June meeting is crucial and cannot be delayed. Constant encouragement and monitoring by the USG will still be required, however, both here and in Washington, to ensure a positive outcome.

¶15. (C) The table is set for a renewed dynamic on free trade in the Southern Cone, in the wake of the deadlock with Mercosur at the Mar del Plata Summit. As Mercosur prepares to welcome Venezuela at the July Summit, FTA talks with Uruguay could deliver a strong signal to Venezuela's Chavez that left-of-center "serious" countries do not buy into his grand scheme. The formal approval of Uruguay's "FTA exception" to Mercosur rules could occur at the same July Mercosur Summit in Argentina when Venezuela's entry into the bloc as a non-voting member will be formalized. The message could not be clearer. WHA/BSC Director Barnes cleared on this cable before his departure. End Comment.
Nealon